



Discounting is it worth it!!

The following table indicates the increased sales required to compensate for a price discounting policy. If your gross margin is 30% and you reduce price by 10%, you need sales volume to increase by 50% to maintain your initial profit. Rarely has such a strategy worked in the past, and it's unlikely that it will work in the future.

Table with columns: 'If your present margin is' (20% to 60%) and 'And you reduce price by' (2% to 30%). The table shows the percentage increase in sales volume required to maintain profit. A cell for 10% price reduction and 30% present margin is highlighted with 50%.



On the other hand, the next table shows the amount by which your sales would have to decline following a price increase before your gross profit is reduced below its previous level. At a 30% margin and a 10% increase in price, you could sustain a 25% reduction in sales volume before your profit is reduced to the previous level...you would have to lose 1 out of every 4 customers!

And you increase price by	If your present margin is								
	20%	25%	30%	35%	40%	45%	50%	55%	60%
	To produce the same exact profit, your sales volume must be reduced by								
2%	9%	7%	6%	5%	5%	4%	4%	4%	3%
4%	17%	14%	12%	10%	9%	8%	7%	7%	6%
6%	23%	19%	17%	15%	13%	12%	11%	10%	9%
8%	29%	24%	21%	19%	17%	15%	14%	13%	12%
10%	33%	29%	25%	22%	20%	18%	17%	15%	14%
12%	38%	32%	29%	26%	23%	21%	19%	18%	17%
14%	41%	36%	32%	29%	26%	24%	22%	20%	19%
16%	44%	39%	35%	31%	29%	26%	24%	23%	21%
18%	47%	42%	38%	34%	31%	29%	26%	25%	23%
20%	50%	44%	40%	36%	33%	31%	29%	27%	25%
25%	56%	50%	45%	42%	38%	36%	33%	31%	29%
30%	60%	55%	50%	46%	43%	40%	38%	35%	33%



If you're like many small businesspeople who regard price as the only factor influencing the buying decision of their customers, you will undoubtedly reject the proposition that a high price strategy (and by implication, high value) will work.

You may accept that it's right for some businesses, but it sure doesn't apply to your business.

There's no business that doesn't have the potential to command a premium price for its products or services **if**—and this is the crunch—it is able to market those products or services in such a way that **the customer perceives added value**.

If all of your marketing effort, all of your advertising, and all of your sales dialogues focus on price, then you will be beaten on price every time a competitor comes along with a lower one. In other words, if you focus your customers on price as a critical factor, it will be one.

The only way to get out of the price trap is to promote other features and benefits that you can offer your customers (for example, better quality, longer warranty, satisfaction guarantees, 24-hour accessibility, more convenient location, greater resale value).

It may be that your competitors already offer all of these things...but unless they also emphasize this in their marketing, how will